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INTRODUCTION TO THE RUSSIAN PAYMENT MARKET



Tristan Hugo-Webb

Analyst, International Advisory Service
thugowebb@mercatoradvisorygroup.com

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Introduction

Russia is a riddle wrapped in a mystery inside an enigma.

– Sir Winston Churchill

While the Russia to which Winston Churchill referred has changed dramatically in recent decades, there may be no quote that better summarizes today's Russian payments market. Although Russia is highly developed in many industries, its domestic payment market more closely resembles that of a developing economy than a developed economy such as those of Western Europe and the United States. Russia's payment market also differs from the other those of the other fast-developing nations referred to collectively as the BRIC (Brazil, Russia, India, and China), as discussed below. What makes the Russian market so mystifying is that although the infrastructure is in place for a relatively robust payments system, consumers appear extremely wary of modern payment technologies, preferring traditional payment instruments and hampering the growth of electronic payments.

In recent years, the domestic payments industry in Russia has expanded considerably, led by strong growth in payment card issuing and spending, banking, and e-commerce activities. Nonetheless, Russia remains one of the smallest payment markets relative to the size of the economy and has vast potential waiting to be tapped.

This Mercator Advisory Group research report is a foundational overview of the Russian payment market,¹ projecting the short-term outlook for payment cards, examining the banking and merchant perspectives of the domestic payment industry, including information on the status of deployment of automated teller machines (ATMs) and point-of-sale (POS) terminals as well as online banking and general account penetration. The report examines the standing of the Russian e-commerce market and provides estimates of its potential. Last, the report identifies some of the prominent payment players in the Russian market across various payment segments.

¹ Part of the mystery of Russia that Churchill alluded to is the lack of available data. Although official government sources have improved reporting standards significantly, reliable payment information is still far less accessible or more dated than in other developed countries.

The Russian Payment Market Landscape

Although the fall of Communism occurred over two decades ago, the legacy of Soviet financial and economic practices has left an indelible mark on the consumers who support Russia's new market-driven economy. Whereas other large developed countries in Europe and elsewhere have been quick to adopt new electronic payment instruments (as simple as debit and credit cards), Russian consumers have largely maintained use of traditional payment instruments, including cash and credit transfers. To provide context on the Russian market size, both general macroeconomic and specific payment market indicators are highlighted in Table 1.

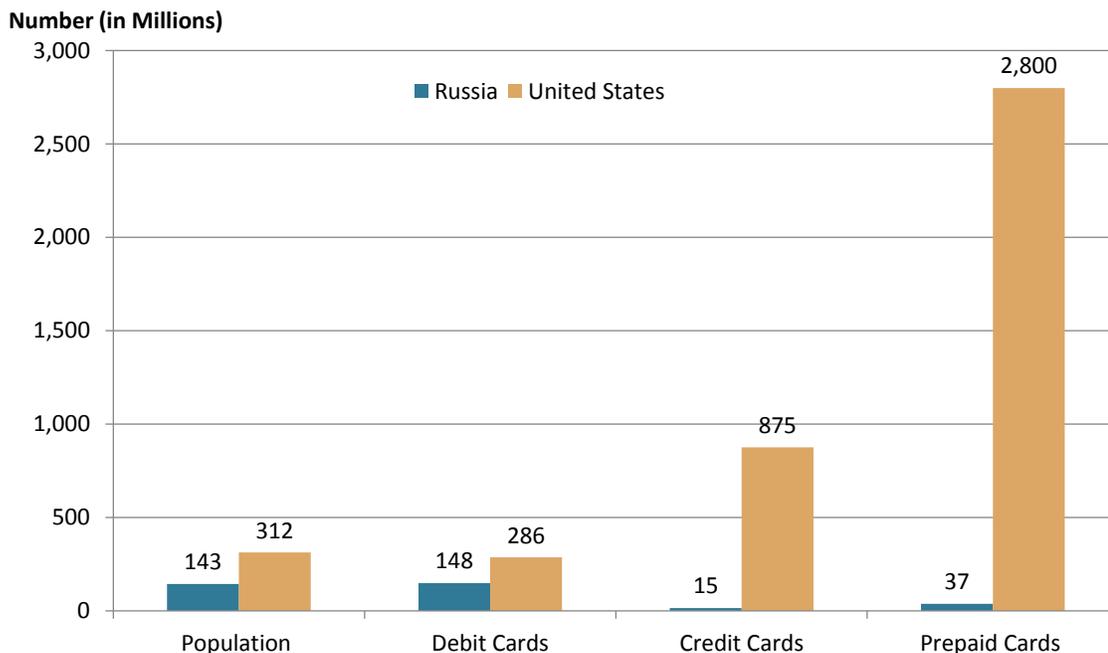
Table 1: Russian Macroeconomic and Payment Market Overview

Market Indicator	Statistic, 2011
Population	143 million
Gross domestic product	\$1.8 trillion
Inflation	6.1%
Retail sales	\$621.34 billion
Number of debit cards in circulation	147.9 million
Number of credit cards in circulation	15 million
Number of prepaid cards in circulation	37.2 million
Bank account penetration	48%
Number of automated teller machines	141,897
Number of point-of-sale terminals	528,511

Sources: Bank for International Settlements CPSS Redbook Statistical Update 2013, CIA World Factbook, Reuters, World Bank, Mercator Advisory Group

At first glance, the Russian payment market would appear stout, especially with the number of debit cards exceeding the total population of the country. However, under closer scrutiny the wider payment market is confounding. Despite a large number of issued debit cards, formal bank account penetration is under 50%. Furthermore the overall number of ATMs and POS terminals is tiny compared with the size of the population. To place the Russian market size in greater context, it is compared to the U.S. market in Figure 1.

Figure 1: Payment Markets: Russia and U.S., 2011



Sources: Bank for International Settlements CPSS Redbook Statistical Update 2013; Mercator Advisory Group

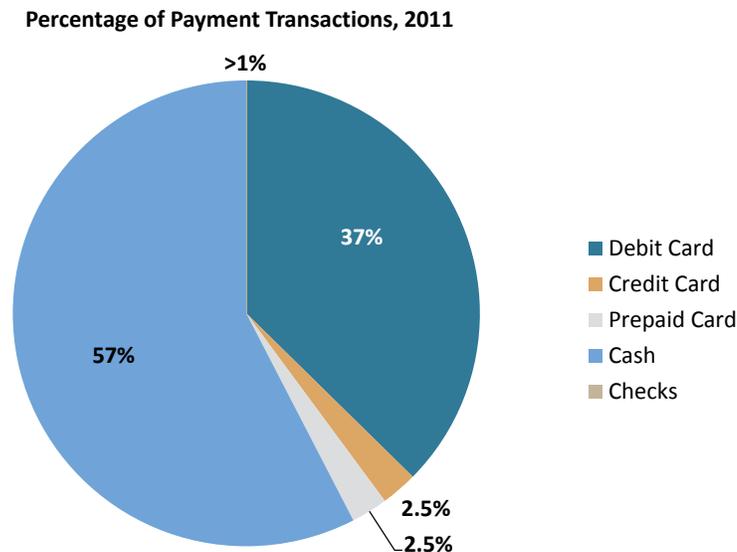
With Russia’s population roughly 45% the size of the U.S. population, it is not surprising that the number of debit, credit, and prepaid cards in Russia falls short of the number in the U.S. While the comparison between markets highlights the weak consumer adoption of credit and prepaid cards in Russia, it underscores the strength of debit cards in Russia, which are in more wallets per capita there (103.5%) than in the U.S. (92%).

Although Russian debit card issuing outperforms that of the United States, the Russian credit and prepaid markets are clearly underperforming in comparison to the U.S. Only 15 million credit cards are in circulation in Russia, which is less than 2% of the total number of credit cards in the U.S. Russia’s prepaid market is even smaller: Though it has grown significantly in recent years from a very small base (see Figure 3), the number of prepaid cards in the Russian market amounts to only a tiny fraction of the number of prepaid cards in the U.S. Although comparing the Russian and U.S. markets may seem like comparing apples and oranges, the underdevelopment of the Russian payment card market highlights the significant prospect for growth in the future in that country.

Old Habits Die Hard

In many developed countries, plastic payment cards and new payment technologies like mobile payments have become hallmarks of payment systems. However, in Russia the majority of transactions are still processed through traditional payment instruments. In 2011, the leading payment instrument used in reported transactions remained cash. Figure 2 shows consumer usage of different payment instruments as a percentage of transactions.

Figure 2: Russian Consumer Use of Payment Types



Sources: Bank for International Settlements CPSS Redbook Statistical Update 2013, Mercator Advisory Group

Cash accounts for nearly 60% of all transaction payments in Russia. The overwhelming popularity of the traditional payment instruments highlights the uphill struggle facing plastic and new payment technologies like mobile payments in the domestic payment market. Furthermore, there is a substantial drop in consumer use of electronic payment forms following debit. While it is not unusual for debit transactions to outnumber credit and other payment types in other markets, few developed markets showcase such a large discrepancy between volumes of non-cash-based payment transactions.



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Tristan Hugo-Webb, Analyst, International Advisory Service

thugowebb@mercatoradvisorygroup.com

781-419-1715

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